



Federal rebate exciting, but spend it wisely

by: PHIL MULKINS World Action Line Editor
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Dear Action Line: If we ever get those income tax rebate checks, should we really whoop it up on "things" so soon after Christmas? Are there wiser ways to spend this money? -- B.R.K., Tulsa.

Most Americans are likely to receive tax rebate checks, maybe by midyear. The U.S. House of Representatives passed a bill Jan. 31 that gives up to \$600 to individuals earning \$75,000 or less annually and up to \$1,200 to married couples making \$150,000 or less, plus \$300 per child.

In the Senate, Republicans and Democrats agreed Thursday to add rebates for 20 million senior citizens and 250,000 disabled veterans to the House-passed package, ending a partisan stalemate. A few hours later, the House followed suit, sending the bill to President Bush for his signature. He indicated he will sign the measure.

Blowing your rebate on "wants" might not be the most fiscally responsible thing to do with it, however. Margo Mitchell, president and CEO of Credit Counseling Centers of Oklahoma, recommends six fiscally responsible destinations for this windfall.

Pay down debt: If you are saddled with double-digit interest rates on credit cards, this is likely doing you the most harm. Financially speaking, the money should go to pay off or pay down the balance with the highest interest rate. However, some consumers find it psychologically rewarding to pay off multiple small debts. Either way, paying down debt is the best use for this money.

Past-due bills: Late fees are nearing \$40, not to mention the damage they do to credit histories and FICO scores. Get current on accounts you're behind with, and stay current.

Emergency fund: It's not a matter of "if" but "when" unplanned emergencies will strike. Most people are not financially prepared for them. Prepare for the inevitable by saving one to three months of salary in liquid cash, such as money in a savings account.

Energy-efficient home: Spend now, save later. Energy efficiency will pay for itself in a few years. Weather-strip doors and windows, replace furnace or air conditioning filters monthly, and buy "compact fluorescent lights" to replace energy-wasting incandescent bulbs.

Pay down secured-debt principal: Putting an extra \$1,000 toward the principal during the early years of a typical mortgage can save the borrower triple that amount over the life of the loan. However, since mortgage interest is tax-deductible, consider how such a pay-down will affect your taxes. If you are in a high tax bracket, it might not be wise to use money you could have invested to pay off the loan quicker and lose the interest deduction. Consult a financial advisor for advice.

Fund a goal: Put it in an Oklahoma 529 College Savings Plan, sock it away for Christmas 2008 or save up for that toupee.

Remedies for debt come in many forms

by: PHIL MULKINS World Action Line Editor
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After Christmas bills arrived, many of us realized that we started the year deeper in debt than ever before.

This year, we were forced to spend money we didn't have fixing weather-heads and electricity meter boxes damaged in the December ice storm, and we are also facing bills for tree pruning and removal yet to be done. We lie awake in bed worrying about this and watching TV debt-consolidation advertisements.

Debt consolidation: Debt consolidation is often not the way out. The impact of the subprime mortgage crisis on the banking and credit industry—and the fact that high credit card debt usually gives us low FICO scores —place debt consolidation loans beyond reach.

Credit counseling: Next in line is “credit counseling,” which has been available here for 40 years but is something that can't help everybody. It is intended to help people make budgets they can live with and still pay their debts — saving them from bankruptcy.

Credit Counseling Centers of Oklahoma: The National Foundation for Credit Counseling accredits credit counselors and has more than 100 community-based members offering credit counseling and budgeting. All carry the NFCC member seal, similar to the Good Housekeeping seal of product approval. It assures consumers that they receive services from an accredited agency with certified credit counselors, their accounts are credited with debt payments they make, their funds are protected and affordable services are offered.

Consumer Credit Counseling Service: The foundation agency serving Tulsa is Consumer Credit Counseling Service: 4646 S Harvard Ave., Tulsa, Okla., 74159-0450; 744-5611; or www.tulsaworld.com/creditcounseling. The person seeking (non-bankruptcy) credit counseling earns an average of \$30,924 and is \$21,509 in debt (70 percent of income), says Margo Mitchell, president and CEO of the service.

Debt management: One option offered for debt repayment is a debt management plan.

A counselor develops a detailed budget, including living expenses and a debt sheet, and discusses ways to reduce expenses and generate additional income. The plan is a solution for someone in a financial crisis who is past due on bills, yet can afford to cover living expenses while repaying debts to creditors according to a revised schedule. The service then negotiates with creditors to lower interest rates and the amounts of minimum monthly payments. The client makes one monthly payment to the agency, and the agency pays the creditors.

The client must be able to pay off the debt within 60 months or be advised that debt management won't work and that bankruptcy is the only option.

Bankruptcy: The typical debt-to-income ratio of the person filing bankruptcy is 1.43—someone earning \$26,900 annually owing \$38,500.

Chapter 7 bankruptcy protection will keep a consumer from losing his or her home and one vehicle, but the fact he filed bankruptcy will remain on his credit record for eight years, under the nation's new bankruptcy law. This could keep him from getting affordable credit, a good job or affordable home and health insurance.

A Chapter 13 bankruptcy remains on his credit report up to 10 years—often damaging his reputation in the community. A Chapter 13 bankruptcy enables individuals with regular income to develop a plan to repay all or part of their debts in three to five years, but remains on his credit report up to 10 years.

Consumer Page topics:

Tulsa World consumer writer Phil Mulkins wants to know which topics interest you most.

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